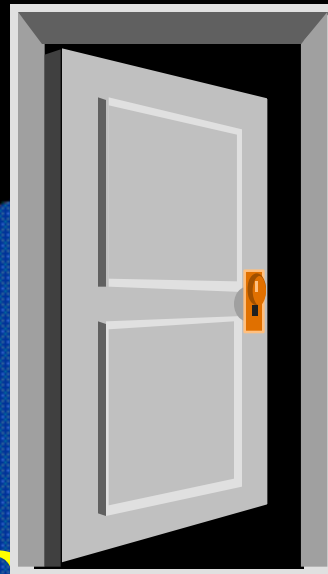


SBA



**“Your Open Door to
Bonding”**

History

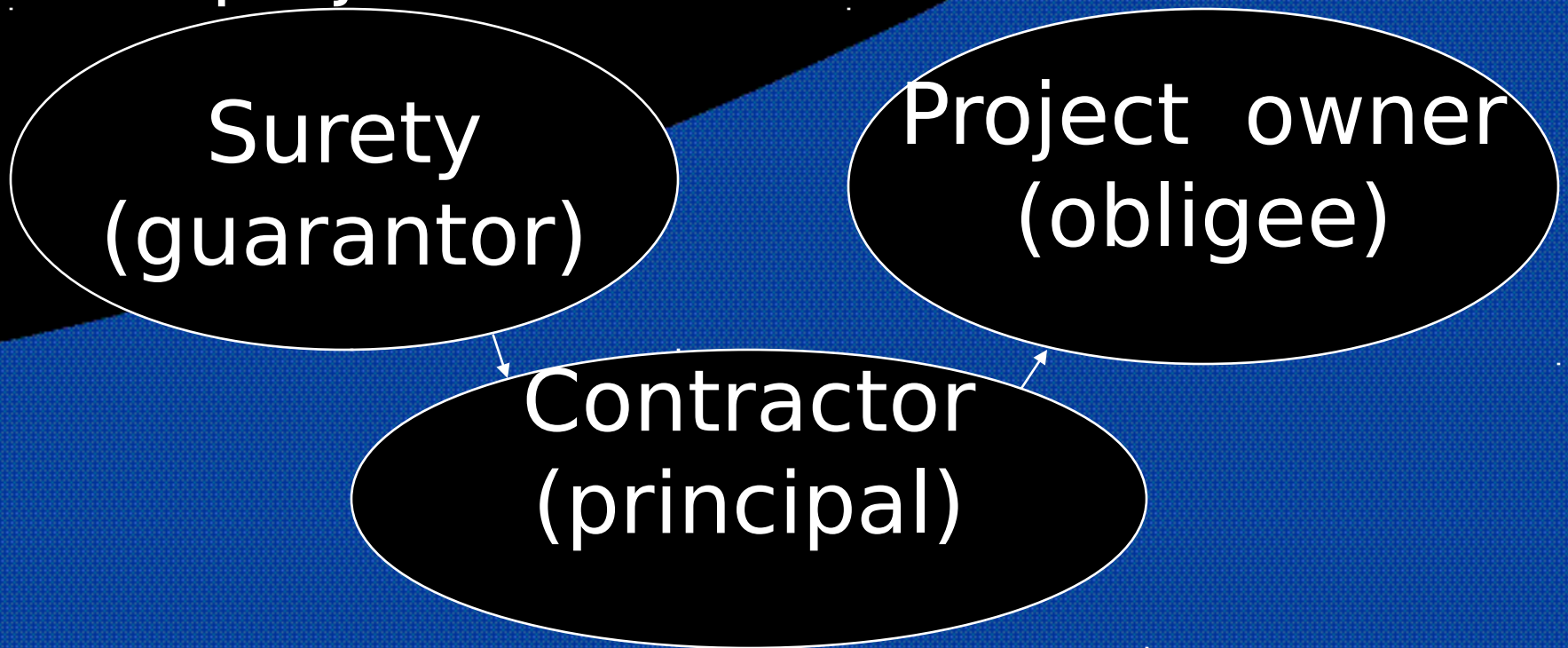
In 1971, the SBA launched a program to assist small, emerging and disadvantaged contractors to obtain surety bonds that were otherwise unavailable. It was called the Surety Bond Guarantee Program.

Purpose

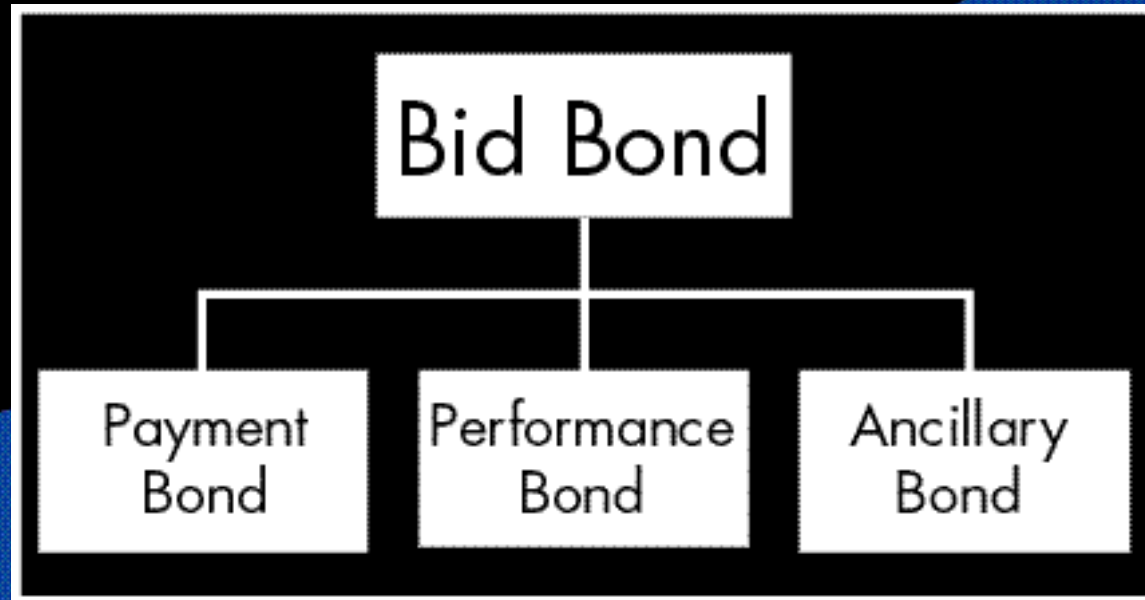
- To help small contractors by providing greater access to contract opportunities.
- Giving surety companies an incentive (guarantee) to provide the necessary bonding.

What Is A Surety Bond?

A three party written agreement between the surety, contractor, and the project owner.



Four Major Contract Surety Bonds Frequently Required



1) Bid Bond

Guarantees the obligee that the bidder will enter into the contract and furnish the required performance and payment bonds.

2) Performance Bond

Guarantees the contractor will perform the contract according to its specifications, terms, and conditions.

3) Payment Bond

Guarantees the contractor will pay all of his/her subcontractors, and suppliers who have furnished labor and/or material on the project.

4) Ancillary Bond

Guarantees the contractor will perform an act or service that is incidental and essential to the performance of the contract, e.g., maintenance coverage.

What Happens If A Contractor Defaults?

- **Bid Bond** - If the contractor fails to enter into the contract, the surety is liable to the obligee for the difference between the contractor's bid and the bid of the next lowest bidder.
- **Performance Bond** - If the contractor fails to complete the performance of the contract, the surety's maximum liability--the penal sum--is for damages incurred by the obligee under the bond.

What Happens If A Contractor Defaults

- **Payment Bond** - If the contractor fails to make payment to subcontractors, laborers, and/or materials suppliers the surety will pay valid claims.
- **Ancillary Bond** - If the contractor fails to cure any problems found during the period of coverage under the ancillary bond, the surety will provide a remedy.

Who Needs A Bond?

- Contractors, subcontractors and suppliers bidding or working on projects that require bonding.
- Almost all sizeable public construction projects and some service contracts require bonding.
- The Miller Act requires prime contractors on federal projects valued at \$100,000 or more to post a surety bond.
- Many states, counties and municipalities observe laws similar to the Miller Act, sometimes referred to as “little miller acts”. Likewise, many private sector projects and subcontracts require surety bonds.

What Is An SBA Surety Guarantee?

- A surety guarantee is an agreement between a surety and the SBA.
- SBA agrees to assume a predetermined percentage of loss in the event the contractor breaches the terms of the contract.
- A guarantee strengthens a small contractors' ability to compete within the free enterprise system.

How Can SBA Help A Contractor Obtain Bonding?

- SBA will guarantee bonds written by any surety company that has been approved to participate, and is listed in the U.S. Treasury's Circular 570.
- Through two separate guarantee programs, SBA can provide a surety a 70-90% guarantee.
- The Prior Approval Program or SBG Program, administered through 4 Area Offices, can provide an 80-90% guarantee. The Preferred Surety Bond Program (PSB) Program, administered by SBA's headquarters office in Washington, DC and Preferred Sureties, can provide a 70% guarantee.

Eligibility Requirements For The Surety Bond Guarantee Programs

- The applicant must be a small business. A construction or service firm's average annual receipts for the past 3 years cannot exceed \$6 million. Manufacturing firms must not have more than 500 employees.
- Contract must require bonds.
- The contract cannot exceed \$2.0 million.

Steps To Obtain Bonding

□ A Contractor Must:

- Find a Surety Bond Agent. An agent is a person who has a power-of-attorney to write bonds on behalf of a surety company.
- Provide the agent with credit, capacity, and character information.

■ A Surety Bond Agent:

- Evaluates the contractor's information and decides whether or not the SBA guarantee is needed.
- Either issues the bond, or requests SBA's guarantee.

How Are Guarantees Processed Under the SBG and PSB Programs?

Under the Prior Approval Program:

- The agent reviews the application package and recommends it to the surety for approval.
- If the surety proposes to bond the project with SBA's guarantee, the package is forwarded to the SBG Area office.
- When an application is determined to be qualified and a "good" risk, SBA may issue a guarantee to the Surety.
-

Under The Preferred Surety Bonding (PSB) Program:

- A surety participating in the PSB Program is authorized by SBA to issue, monitor and service bonds without prior SBA approval.
- A PSB surety does not have to submit the contractor's package to SBA for review.
- A PSB surety notifies SBA of the bonds it issues under the program.

What Information Will A Surety Require?

Most companies will (at a minimum) require the following:

- An organizational chart
- Business plan
- Current financial statements
(prepared by an accountant or CPA)
- Financial statements for the last two years
- Resumes of key personnel
- Record of contract performance
- Status of work in process

What Costs Are Involved?

■ Surety Charges:

- The surety will charge a contractor a premium based on the rates approved by each state's insurance department where they are licensed to conduct business. Usually between 1 and 3 percent of the contract price.

□ SBA Charges:

The SBA does not charge a contractor a fee for an application or a bid bond guarantee.

- The surety pays SBA 20% of the premium that it charges the contractor.
- The contractor pays SBA \$6 per every \$1,000 of the contract amount.

How Does A Contractor Find A Surety Agent?

■ The SBA cannot recommend a specific surety or agent, but does provide a listing of agents doing business in the area.

□ Contact one of the following SBA offices:

AREA OFFICE 3

Darryl K. Bellamy, Area Director, ext. 251

Walter E. Lee, SBG Specialist, ext. 254

Elizabeth Gutierrez, SBG Spec., ext. 253

Deborah A. Williams, SBG Tech., ext. 256

21 19th Street, Suite 426

Denver, CO 80202

(303) 844-2607 (303) 844-6490 (fax)

Email: darryl.bellamy@sba.gov

Geographic Territory

, IA, MO, NE, CO, SD, UT, WY, ND, MT



**SBA's headquarters address in
Washington, DC is as follows:**

**Office of Surety Guarantees
409 Third Street, SW
Washington, DC 20416
202-205-6540**

**Home Page: <http://www.sba.gov>
click on "SBA Offices and
Partners**





SBA Answer Desk: 1-800-U-ASK-SBA

Fax: 202-205-7064

TDD: 704-344-6640

Home Page: www.sba.gov

*All of the SBA's programs and services
are provided to the public on a nondiscriminatory*